

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6552

BILL NUMBER: HB 1218

NOTE PREPARED: Dec 18, 2006

BILL AMENDED:

SUBJECT: Cultural and Performing Arts Development Districts.

FIRST AUTHOR: Rep. Hoy

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill authorizes cities and counties that have a redevelopment commission to apply to the Indiana Economic Development Corporation (IEDC) and the Arts Commission for designation of a cultural and performing arts development district. The bill establishes procedures for the allocation of incremental Property Tax, Sales Tax, and Income Tax revenue to the redevelopment commission for use within the district. The bill authorizes the issuance of bonds for projects within the district. It also provides that the IEDC may not approve an EDGE Credit for a business located in a district unless the political subdivision that created the district has adopted an ordinance recommending a credit in an amount at least equal to the credit amount agreed to by the IEDC and the business.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Indiana Economic Development Corporation:* The bill requires the IEDC to review applications for, and designate, cultural and performing arts development districts proposed by local redevelopment commissions. (The bill prohibits the IEDC from designating a cultural and performing arts development district unless the Indiana Arts Commission and the State Budget Agency recommend approval of the application.) The bill requires the IEDC to adopt rules establishing criteria for the designation of cultural and performing arts development districts and specifies various criteria that must be included in those rules. The bill provides that the local unit's legislative body and redevelopment commission may enter into an agreement with the IEDC establishing the terms and conditions governing the cultural and performing arts development district. It also provides that the IEDC oversee conveyance of public facilities owned or developed by the local unit and its redevelopment commission at below-market rates. The IEDC's current level of resources should be sufficient to fulfill these administrative tasks. The November 20, 2006, state position vacancy report indicates that the IEDC has 37 vacant full-time positions.

Department of State Revenue (DOR): The bill requires the DOR to determine the base gross retail and income tax base period amounts for a cultural and performing arts development district within 60 days of the district's designation by the IEDC. The base gross retail period amount is the aggregate amount of state gross retail and use taxes remitted by businesses operating in the territory comprising the district during the state fiscal year preceding the designation of the district. The income tax base period amount is the amount of income taxes (state individual Adjusted Gross Income Tax, and local option income taxes (CAGIT, COIT, and CEDIT)) paid by employees employed in the territory comprising the district for work in the district during the state fiscal year preceding the designation of the district. Every October, the DOR is required to calculate the incremental income and sales tax revenues collected in each cultural and performing arts development district during the preceding state fiscal year.

Additional Application Recommendations: The bill requires the Indiana Arts Commission, the State Budget Agency, and the State Budget Committee to review applications for cultural and performing arts development district designations and make a recommendation to the IEDC. In addition, the bill prohibits allocations of incremental income and sales tax collections to be made unless the State Budget Agency approves the application for district designation.

State Treasurer: The bill requires the State Treasurer to establish an incremental tax financing fund for each cultural and performing arts development district. Each year, incremental income and sales tax revenue generated in a cultural and performing arts development district must be deposited in its respective incremental tax financing fund. Each month, money in a cultural and performing arts development district's incremental tax financing fund is distributed to the redevelopment commission operating the district for deposit in its cultural and performing arts development district fund. The bill limits allocations of income tax (including CAGIT, COIT, and CEDIT) and sales tax collections to a cultural and performing arts development district's incremental tax financing fund to \$5.0 M over the life of the district.

Explanation of State Revenues: *Capture of Incremental Tax Revenue:* The bill allows a local redevelopment commission operating a cultural and performing arts development district to capture incremental revenue from: (1) the individual AGI Tax paid by employees working in the district; and (2) Sales and Use Tax remitted by businesses operating in the district. These allocations plus allocations of incremental local option income taxes (CAGIT, COIT, and CEDIT) may not exceed \$5.0 M over the life of the particular cultural and performing arts development district. The bill prohibits capture of incremental AGI Tax and Sales and Use Tax unless it is approved by the State Budget Agency. The bill does not limit the number of districts which can be created statewide. These allocations would reduce revenue to the General Fund and the Property Tax Replacement Fund by an indeterminable amount potentially beginning in FY 2008 or FY 2009.

EDGE Credit Provisions: The bill extends EDGE credit limitations applicable to Community Revitalization Enhancement Districts and Certified Technology Parks under current statute to cultural and performing arts development districts. The limitations are as follows:

- (1) The bill reduces the incremental income tax amount that may be captured by a cultural and performing arts development district by the amount of EDGE Tax Credits awarded for economic development projects in the district, if awards have been made.
- (2) The bill requires an additional condition be met for EDGE credits to be awarded for a project located in a cultural and performing arts district. Under current statute, the EDGE Board must make a determination that several conditions have been met regarding the applicant business, its proposed project, and the impact

of the proposed project before approving EDGE credits. In addition to these conditions, the bill requires that for projects in cultural and performing arts districts to obtain EDGE credits, the local unit that established the district must adopt an ordinance granting a credit at least equal to the EDGE credit award.

(3) The bill also requires the EDGE Board to consider the extent to which a cultural and performing arts district needs the incremental income tax attributable to a project for its purposes, when determining the total EDGE credit amount for a project.

Explanation of Local Expenditures: After entering into the cultural and performing arts development district agreement with the IEDC, a redevelopment commission must submit to the DOR certified copies of the IEDC designation of the district, the agreement, a complete list of the residents and employers in the district, and street and address information in the district. The DOR is then required to calculate the base amounts for income taxes and for sales and use taxes generated in the cultural and performing arts development district.

If a redevelopment commission designates a cultural and performing arts development district as a TIF area, it must publish notice of this action and of the public hearing on the subject, and accept written remonstrances on this action. The bill also requires the redevelopment commission to file information regarding the cultural and performing arts development district with each taxing unit that levies property taxes in the district. If, after holding a public hearing, the redevelopment commission designates the TIF area, a person who submitted a written remonstrance may appeal the commission's decision to the circuit or superior court of the county.

Explanation of Local Revenues: The bill allows a local redevelopment commission to establish a cultural and performing arts development district encompassing all or part of the territory under the commission's jurisdiction. The cultural and performing arts development district must be designated by the IEDC, upon affirmative recommendation of the Indiana Arts Commission and the State Budget Agency. The bill allows a redevelopment commission operating a cultural and performing arts development district to designate the district as a TIF district. This would allow the redevelopment commission to capture incremental property tax revenue generated from taxable property in the cultural and performing arts development district (revenue from assessed property valuation in excess of the base assessed value calculated before the designation of the district). The bill also allows a redevelopment commission operating a cultural and performing arts development district to capture incremental revenue from: (1) state individual AGI taxes and local option income taxes (CAGIT, COIT, and CEDIT) paid by employees working in the district; and (2) state sales and use taxes remitted by businesses operating in the district. Income and sales and use tax allocations may not exceed \$5.0 M over the life of the particular cultural and performing arts development district. In addition, income tax and sales and use tax allocations require approval by the State Budget Agency. The bill does not specify a capture limit for incremental property tax revenue. However, if a redevelopment commission determines that incremental property tax revenue in a year will exceed the amount necessary to pay the costs of the cultural and performing arts development district, the excess incremental tax revenue may be allocated to local units. Also, the bill permits a redevelopment commission to pay a property tax replacement credit against the property tax of the "tified" property. This credit would reduce the amount of TIF proceeds received by the commission.

The bill requires a redevelopment commission to establish a cultural and performing arts development district fund to receive incremental property, income, and sales tax revenues. Under the bill, money in a cultural and performing arts development district fund may be used for: (1) the development and operation of public facilities that are related to the cultural and performing arts and that are in or serving the district; (2) costs

incurred relating to debt instruments issued to finance the development of public facilities serving the district; and (3) payment of expenses incurred for public facilities in or serving the district. The bill prohibits any money in a cultural and performing arts development district fund from being used to pay operating expenses of a redevelopment commission. The bill also authorizes a redevelopment commission to issue bonds with a maturity not exceeding 50 years for the purpose of providing public facilities for a cultural and performing arts development district, or the cost of refunding or refinancing outstanding bonds.

State Agencies Affected: Indiana Economic Development Corporation; Department of State Revenue; Treasurer of State; State Budget Agency; State Budget Committee; Indiana Arts Commission; State Board of Accounts; Department of Local Government Finance.

Local Agencies Affected: Local redevelopment commissions.

Information Sources:

Fiscal Analyst: Jim Landers, 317-232-9869.